Texas Health Care Policy Council

-Policy Paper-

Empowering Texas Health Care Consumers

Executive Summary

One of the most significant strains on the Texas health care system is the rapidly increasing cost of health care. Although several major economic and psychological dynamics have led to the high-rate of health care cost inflation, one of the most critical is the absence of economically rational consumer behavior in the health care system – basically, when patients cannot see the price or quality of health care goods and services, they are led to consume more than they otherwise would want or need to consume.

Discussion

There is a general recognition that the health care system is in a state of looming crisis with both public and private payers experiencing significant annual percentage increases in health care costs, year after year. The scope of this problem has generated a great deal of attention and prompted many individuals and groups to call for large-scale health system reform. Few of the large-scale reforms that have been proposed to date address the underlying dynamics that have driven the system to its current state. Even dramatic reforms with the goal of providing universal health care or universal coverage address only a symptom of the larger problem. Unless health system reform addresses the underlying dynamics that have driven the system to its current state, these reform proposals will only delay the crisis.

One of the underlying dynamics that has allowed individual and aggregate health care costs to increase at a rate so far above inflation for so many years is the fact that, unlike most other markets, in the health care market the consumer and the purchaser are rarely the same individual or entity. Therefore, one of the factors that restrains consumption of products and services in other markets – the perceived value of a service related to its cost – is largely absent in the health care market. One strategy to inject more consumer behavior into the health care system, and thus affect one of the underlying dynamics, is to empower consumers to control their own health care spending more directly by providing them with the sorts of information – price and quality – that are available in other, more efficient markets.

Common strategies for increasing consumer awareness of value in the health care system include the deployment of health savings accounts (HSAs) with high-deductible health plans, quality reporting, and price transparency. Even if consumers do not purchase health care goods and services with money that they could otherwise use for other things, price and quality signals are likely to make value a more relevant factor in health care markets.

One strategy to inject more consumer behavior into the health care system, and thus affect one of the underlying dynamics, is to empower consumers to control their own health care spending more directly by providing them with the sorts of information – price and quality – that are available in other, more efficient markets.

Recommendations

- Making cost and quality information available will allow Texans to shop for health care goods and services based on value. Unfortunately, finding cost and quality information can be difficult. In the short-term, the state should develop a single Internet portal that will give Texans a one-stop access point to state, federal, and national organizations that provide Internet-based quality and pricing information for hospitals and long-term care facilities in Texas.

- Amend Texas law so that hospital discharge data currently gathered by the state can be used for state planning and policy development. The Department of Health and Human Services (DSHS) currently collects many different sets of data that include personally identifiable health information but is prohibited by statute from linking these different data sets together. DSHS could develop significantly more useful quality measures by linking these data sets together, while still protecting the privacy of Texans by publicly reporting only de-identified, aggregated data.

- The Texas Health Care Information Collection Center (THCIC) should be authorized to use personally identifiable information to link discharge data to other data collected by the state (e.g. birth and death records, cancer registry, etc.)

- Amend Texas law to streamline the THCIC's hospital data review process to prevent unnecessary delays in allowing the data to be accessible to the public.

- Develop a voluntary reporting system by pharmacies on retail prices of common drugs. A website should be established and maintained to make it easier for consumers to shop around for the lowest available prices on their pharmaceuticals.

- In the long-term, THCIC or another entity should be charged with developing and maintaining a website for reporting all health care quality measures and health care price information (on an episode-of-care basis where applicable).

Empowering Texas Health Care Consumers

Problem

Economically rational consumer behavior and competition are largely absent from the health care system, leading to significant increases in health care costs, well in excess of inflation. Furthermore, some of the key prerequisites for consumer behavior – information about the cost and quality of health care goods and services – are not readily available.

Objective

To offer Web-based tools that will allow consumers to compare cost and quality information so that they can make informed decisions about their health care.

Background

House Bill 916, 79th Regular Legislative Session, created the Texas Health Care Policy Council to research, analyze and provide recommendations on ways to improve the quality, safety, efficiency, and effectiveness of the Texas health care system. One of the most significant strains on the Texas health care system is the rapidly increasing cost of health care. Although several major economic and psychological dynamics have led to the high-rate of health care cost inflation, one of the most critical is the absence of economically rational consumer behavior in the health care system – basically, when patients cannot see the price or quality of health care goods and services, they are led to consume more than they otherwise would want or need to consume.

Health Care Costs

National Costs

Health expenditures in the United States grew 7.7 percent in 2003 to $1.7 trillion, down from a 9.3 percent growth rate in 2002. On a per capita basis, health spending increased by $353 to $5,670. Health spending accounted for 15.3 percent of Gross Domestic Product in 2003, outpacing growth in the overall economy by nearly 3 percentage points.[1]

Private payers (primarily private health insurance and payments by individuals for co-pays, deductibles, and services not covered by insurance) funded more than half of national health expenditures in 2003, or $913.2 billion. The public sector funded $766 billion, with the Medicaid program funding 16 percent of aggregate health spending, or $267 billion, nearly equaling the 17 percent, $283 billion, spent by Medicare.[2]

Texas Costs

The State of Texas (including federal and state funds for public programs) is the largest single payer of health care services in the state and, as such, has a significant impact on the provision of health care services.

The 2006-2007 General Appropriations Act adopted by the 79th Texas Legislature allocates a total of $25.4 billion for health-care services provided by the state in fiscal year 2006, and $26.0 billion in FY 2007. The two year budget of $51.43 billion is more than 20 percent higher than the FY 2004-2005 biennium, for which the state budget included $40.12 billion for health care-related spending.[3]

Growth in personal health care expenditures in Texas averaged 9.3% per year over the period of 1980 through 2004 compared to a national average annual growth rate of 8.6% and an average annual inflation rate of 2.7%. The average annual health insurance premium for families in Texas rose from just under $5,000 in 1996 to over $10,000 in 2004.[4]

Cost Drivers

The overall increase in premiums between 2004 and 2005 was approximately 8.8 percent, which is 36 percent lower than the 13.7 percent increase reported in 2002. General inflation accounted for 27 percent of the 2005 increase in health insurance premiums. Increased utilization of services accounted for an estimated 43 percent of the increase. Price increases in excess of inflation for health care services accounted for the remaining 30 percent of the increase in health insurance premiums.[5]

The reasons for price increases in excess of inflation include movement among purchasers toward broader-access health plans, provider consolidation, increased costs of labor, and higher priced technologies. Increased utilization appears to have been a result of increased consumer demand, new medical treatments, and more intensive diagnostic testing. An aging population and increasingly unhealthy lifestyles were also likely contributors.[6]

Health Insurance Coverage

The number of Texans with private insurance, including employer-based coverage, decreased between 1999 and 2004 after a gradual increase during the late 1990s. In 1995, 61.8 percent of Texans were covered under private plans, and by 1999 the figure increased to 64.5 percent. Since 1999, that figure has gradually declined; by 2004, the percentage had dropped to 59.2 percent, compared to a national rate of 68.1 percent.[7]

Uninsured rates for 2003-2005 using a three-year average show Texas (24.6 percent) had the highest percentage of uninsured, while Minnesota (8.7 percent) had the lowest.[8]

Competition in the Health Care Industry

As noted by the Federal Trade Commission and Department of Justice in a recent analysis of the health care industry, there are a number of features of the health care market that can limit competition including extensive regulation; distorted incentives due to third-party payment; information problems; ignorance about trade-offs between cost, quality, and access; societal attitudes regarding medical care; and agency relationships. Several of these factors, particularly information problems; ignorance about trade-offs between cost, quality, and access; and agency relationships derive from the third-party payment structure wherein the purchaser or payer is not the same individual as the consumer or patient.[9] In fact, throughout most interactions with the health care system, there is no true consumer in the economic sense.

Discussion

There is a general recognition that the health care system is in a state of looming crisis with both public and private payers experiencing significant annual percentage increases in health care costs, year after year. The scope of this problem has generated a great deal of attention and prompted many individuals and groups to call for large-scale health system reform. Few of the large-scale reforms that have been proposed to date address the underlying dynamics that have driven the system to its current state. Even dramatic reforms with the goal of providing universal health care or universal coverage address only a symptom of the larger problem. Unless health system reform addresses the underlying dynamics that have driven the system to its current state, these reform proposals will only delay the crisis.

One of the underlying dynamics that has allowed individual and aggregate health care costs to increase at a rate so far above inflation for so many years is the fact that, unlike most other markets, in the health care market the consumer and the purchaser are rarely the same individual or entity. Therefore, one of the factors that restrains consumption of products and services in other markets – the perceived value of a service relative to its cost – is largely absent in the health care market. One strategy to inject more consumer behavior into the health care system, and thus affect one of the underlying dynamics, is to empower consumers to control their own health care spending more directly by providing them with the sorts of information – price and quality – that are available in other, more efficient markets.

Common strategies for increasing consumer behavior in the health care system include the deployment of health savings accounts (HSAs) with high-deductible health plans, quality reporting, and price transparency. Even if consumers are not made to purchase health care goods and services with money that they could otherwise use for other things, price and quality signals are likely to increase rational economic behavior.

State Initiatives

General

Even though many states are now requiring hospitals, clinics, and pharmacies to release certain data, experts caution against compiling and releasing health care information too quickly. An April 2006 report by the U.S. Government Accountability Office (GAO) identified "providing the cost and quality data in a way that consumers can understand and interpret" as the biggest challenge of consumer support tools.[10] Another study recommended several strategies for creating successful consumer support tools including considering the decision context and audience, selecting the appropriate medium, and maximizing awareness.[11]

Other States

In an effort to provide improved consumer-support tools, many states are partnering with health care networks, insurance carriers, and health-information technology consulting firms. In Florida, for example, the Agency for Health Care Administration, through the Health Care Information Act has developed two user-friendly interfaces for health care consumers. Florida Compare Care (www.floridacomparecare.gov), guides consumers to hospital services by county and city and provides them with inpatient/outpatient facility services, medical procedure outcomes, hospital performance ratings, as well as low, mean, and high figures

for lengths of stay, readmission, mortality, complication, and charge rates. The second site maintained by the State of Florida, www.myfloridarx.com, allows consumers to search for more than 50 prescriptions by county, city, and drug name. The data includes pharmacy address, phone number, drug quantity, and price. Other states that have established statutes to provide similar services include Massachusetts, California, Minnesota, Kentucky, North Carolina, Tennessee, Missouri, Colorado, Pennsylvania, Ohio, and Georgia.

Federal

The Centers for Medicare & Medicaid Services (CMS), within the U.S. Department of Health and Human Services (DHHS), collects data on hospitals, nursing homes, and home health providers and has developed web-enabled, consumer-friendly tools to allow consumers to compare the quality of providers.

Hospital Quality Data

CMS and the Hospital Quality Alliance (HQA) created Hospital Compare to provide comparative quality information on hospitals to patients. Hospital Compare includes quality measures on how often hospitals provide some of the recommended care to get the best results for most patients.

Long-Term Care Quality Data

CMS developed Nursing Home Compare and Home Health Compare to provide comparative quality information on nursing homes and home health providers to patients seeking care or residence. Home Health Compare provides detailed information about Medicare-certified home health agencies. Nursing Home Compare includes quality information on nursing homes that are Medicare or Medicaid certified.

Texas

Texas state agencies currently collect and publish quality information on hospitals and long-term care facilities through the Department of State Health Services (DSHS) and the Department of Aging and Disability Services (DADS), respectively.

Hospital Quality Data

DSHS, through the THCIC, collects data on all discharges from reporting hospitals in Texas and currently publishes reports on several aspects of hospital quality including indicators of inpatient care, preventable hospitalizations, and utilization.

Long-Term Care Quality Data

DADS collects data on all types of long-term care providers including residential care, home health care, and adult day care. DADS reports quality information on long-term care providers along four axes – two that reflect quality of care, which are based on the Center for Health Systems Research and Analysis (CHSRA) Quality Indicators; and two other axes that measure compliance with state and federal regulations.

Recommendations

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End Notes

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